Wealth Management
Weekly Market Update

Published 10 August 2020

Market Update

Bucking the trend of two consecutive weeks of falling equity markets, all major indices were positive last week. Global equities gained +2.7% in Sterling terms, with the Nasdaq Composite reaching new highs, and the S&P 500 now close to its February peak. After a poor week last week, Japan rebounded +3.7% in Sterling terms, the best regional performer, whilst Emerging Markets lagged behind other major global regions, adding 1.4% . US, UK and European markets were up 2.9%, 2.4% and 2.2% in Sterling terms respectively. The US economy still faces a great deal of uncertainty, the US labour market continues to show an historic level of unemployment. A further 1.2 million Americans filed weekly jobless claims, but as this was the first increase in a fortnight, investors picked up on this as a potentially bullish signal. The yield on the US 10Y Treasury rose 3.6 basis points for the week to close at 0.564%. The 10Y Gilt yield closed the week at 0.139%, 3.5 basis points up, with Gilts returning -0.7%. Gold rallied a further +3.5% in USD terms and is trading at all-time highs, while Oil rose +2.8% on renewed hopes we are past the worst of the pandemic restrictions.

UK Stocks	US Stocks	EU Stocks	Global Stocks	EM Stocks	Japan Stocks	Gilts	GBP/USD
▲ +2.4%	▲ +2.9%	▲ +2.2%	▲ +2.7%	▲ +1.4%	▲ +3.7%	▼ -0.7%	▼ -0.3%

all returns in GBP to Friday close

Macro News

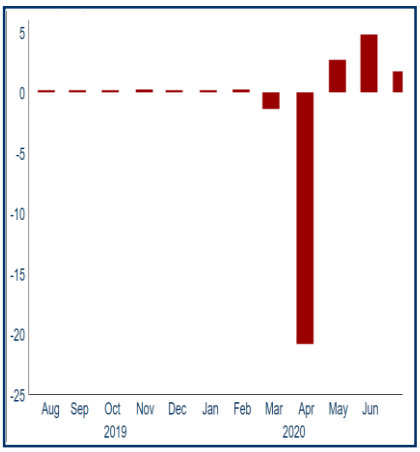
- The US economy added 1.76 million jobs in July 2020, easing from a record 4.8 million the previous month, as a resurgence in COVID-19 cases hit the labour market recovery. Still, the reading beat market expectations of a 1.6 million increase.
- The BoE held interest rates at 0.1% and the bond-buying program at £745 billion. BoE Governor Andrew Bailey reiterated that negative interest rates were part of the bank's toolkit, but there were no plans to use them. The BoE also forecast that the UK economy would contract -9.5% this year and predicted a slower recovery, with the economy clawing back its losses by the end, rather than by the middle, of 2021.

The Week Ahead

- This Thursday, US initial jobless claims will be released for the week ended 8 August. Previously, the number of people applying for unemployment benefits fell by 249,000 to a seasonally adjusted 1.2m. Bloomberg forecasts 1.14m people have filed for unemployment benefits last week.

Week in Charts

Fig 1: US Nonfarm Payroll



US nonfarm payrolls surprise to the upside in July, with nonfarm payroll growth in the United States at 1.76m in July, down from 4.8m for June. The consensus forecast was for an increase of 1.6m. Meanwhile, the unemployment rate dropped from 11.1% in June to 10.2% in July.

Fig 2: Oil

The first half of 2020 has been brutal for the oil industry: global demand dropped almost a third at one stage. Whilst demand for oil was slashed as people stopped driving and flying due to the pandemic, the price of crude is now recovering at a much quicker pace than expected.

View From the Desk

Rebounding equity prices and encouraging manufacturing and jobs numbers out of the US last week are coming against a backdrop of a second coronavirus wave, which (in our limited capacity to understand it) appears to be leading to less mortalities and hospitalisations, especially for countries and communities that have fully experienced the first wave. Improved healthcare capacity, some basic protocols and increased citizen vigilance, especially for groups more exposed to the consequences of the virus, as well as progress in formulating a vaccine are making this second wave less painful. Governments already dumbstruck by the economic consequences of the first wave are understandably reticent to proceed with a second general lockdown, and are trying to come up with workable and, if needs be, semi-permanent solutions.

Yet, behind some good forward numbers (Q2 numbers are still coming in, but are very weak, if above expectations) we can't help but notice the big picture, which is one of a global economic and financial disconnect. US GDP for the year to June was down almost 10%, with most of Europe in the area of - 12% to -15%. UK GDP is projected to fall almost 20%. US stocks were up 5% for the year (in local currency), EM is flat, European and Japanese stocks are down 8% to 9%, while UK stocks are down a whopping 18%. Part of the UK's disconnect is due to idiosyncratic reasons, like renewed Brexit worries (GBP is down 6% vs the Euro for the year) and an aversion to income stocks. But a lot of it is because we are seeing global supply chain breakdowns continue unabated. In its capacity of a truly globalised economy, Britain often serves as the proverbial canary in the coal mine for global trade conditions. As countries scramble to fortify their healthcare systems, they are also looking to reduce overseas dependency for key goods and services as disruptions may well continue into the next year. De-globalisation policies were never seen as much more than a bump on the road of a more unified global economy. But the realities of the pandemic are beginning to de-globalise the world, with possible permanent repercussions for inflation, technological development and overall growth.

David Baker, CIO

MAZARS